Wise Money Moves Young Women Can Make

Want a better financial future for yourself? Act now.

Provided by Pat Baxter, Registered Financial Advisor

As a young woman, you have an opportunity to make some major financial strides. You truly have time on your side when it comes to investing, saving, and harnessing the power of compounding. Now is the time to pay yourself first and do those things that could make you wealthy in the future.

Your first move should be debt reduction. This frees up money for the other moves you can make and lessens the amount of money you pay to others, instead of yourself, each month.

Consider attacking your highest-interest debts first rather than your largest debts. If you have big credit card balances, high-interest car loans, or similar financial obligations, that borrowed money may be extremely expensive. Credit bureau Experian says that monthly household credit card balances in this country hover around $6,375. According to personal finance website NerdWallet, the average interest rate on a credit card right now is 14.87%, and the average U.S. household pays out $904 a year just in credit card interest. A constant debt of $6,000 is bad enough, but having to pay roughly another $1,000 a year just for the opportunity to borrow? That really hurts.[1]

Whether your major debts are larger or smaller, think of the progress you could possibly make by devoting thousands of dollars you pay to others to yourself. Say you direct $3,000 you would otherwise pay to creditors during a year into an investment account returning 6%. Say you do this for 10 consecutive years. At the end of that 10-year period, you are looking at $47,287, not simply $30,000. That is what compound interest – the best kind of interest – can do for you financially.[2]

Across longer time periods, compound interest has a proportionately greater positive effect. Stretch the above example out to 35 years and those annual $3,000 investments at a 6% return grow to $377,421. (Keep in mind, you may be able to save and invest considerably more than $3,000 annually as you earn more money per year.)[2]

Save or invest whatever you can. Setting aside a little cash for yourself is good, too. You want to build some kind of emergency fund with money you can touch; money you can get at right away if you need it quickly.

Many retirement savings vehicles offer you tax breaks. The common workplace retirement plan or IRA is tax favored: money within the account grows tax free, and it is subtracted from your paycheck before taxes. You only pay taxes on the money when it is withdrawn. In addition, many employers will partially match your contributions if you meet a certain minimum. Roth IRAs and workplace plans allow both tax-free growth and tax-free withdrawals, provided Internal Revenue Service rules are followed. While you get no up-front tax break for contributing to a Roth account, you also have the potential to withdraw the money tax free for retirement, which is a great thing.[3]

Not using these saving and investing accounts could be a big mistake. Some people are skittish about Wall Street investments, but largely speaking, those are the kinds of investments that have the potential to return better than 5% a year (think about the scenario from a few paragraphs earlier). In fact, the S&P 500, the broad benchmark of the stock market, gained an impressive 19.42% last year.[4]

Parking too much money in cash and avoiding all risk can come with an opportunity cost you may not be able to afford. Sallie Krawcheck, the former president of the investment management division of Bank of America and CEO of Ellevest, estimates that a woman making $85,000 annually who puts 20% of her yearly pay into a bank account rather than an investment account could effectively forfeit more than $1 million after four decades of doing so.[5]

Now is the ideal time to plan to get ahead financially. Think about your future, and make the wise money moves that give you the potential to make it bright.

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